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Annual Report For the Fiscal Year 1946

The Kroger Co.

OFFICERS

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JOSEPH B. HALL, *President*

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ROGER B. CONANT, *Assistant Treasurer*

JOHN M. MARKLEY, *Assistant Secretary*

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President, The Mabley and Carew Co.

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Vice-President

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Railway Company

CHARLES W. DUPUIS, *Cincinnati*
President, The Central Trust Company

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Proprietor, John J. Gilligan & Son

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President

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Partner, McKinsey, Kearney & Co.

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Proprietor, Clovelly Stock Farm

CHARLES M. ROBERTSON,
Chairman of the Board

STANLEY M. ROWE, *Cincinnati*
Vice-President and Treasurer,
The Shepard Elevator Co.

JOHN H. SADLER,
Secretary

TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati
Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati
The Commercial National Bank and Trust Company of New York, New York

ANNUAL REPORT

February 7, 1947

TO THE SHAREHOLDERS:

This report is for the fiscal year 1946, beginning December 30, 1945 and ending December 28, 1946.

SALES AND PROFITS

Sales for the year were \$567,487,547, representing an increase of \$110,154,907, or 24% over 1945. Net income for the year, after provision for reserves and Federal taxes on income, was \$9,365,780, or \$5.10 per common share, as compared with \$3.07 per common share for 1945.

CASH POSITION

The increase in dollar sales required a larger inventory, which depleted our cash and necessitated some borrowing. Notes payable which totaled \$5,000,000 at the end of the year have already been reduced to \$4,000,000 and will be paid off within the next few months.

GROSS PROFITS

The increased profit was produced by the increased volume of sales and not by an increase in the gross mark-up percentage, which in fact was less than in previous years. Rather than charging all the traffic would bear incident to a sellers' market, we have maintained our traditional policy of low prices to secure volume sales and reasonable net profits.

INVENTORIES

Inventories at the end of the year were \$63,025,926, an increase of 47% over the previous year. Retail inventories represented 27 days' supply of merchandise. The increase in inventories is due largely to increase in price levels. Inventories were written down \$811,500 at close of the year to reflect known reductions in prices, and in addition, \$1,500,000 has been set aside as a Reserve for Possible Inventory Losses.

EXPENDITURES FOR FIXED ASSETS

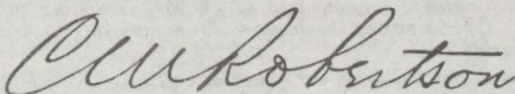
During 1946 your company spent \$4,082,750 for additions, replacements and improvements to fixed assets. Two hundred stores were converted to self-service, relocated to more satisfactory buildings or otherwise improved. In addition, substantial improvements were made at various warehouses, offices and bakeries. Planned modernization of stores during 1947, together with other equipment and building needs, will require several million dollars of expenditure.

EMPLOYEES' RETIREMENT PROGRAM

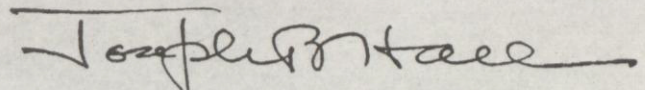
Your Directors have established a self-administered program for the retirement of company employees at age 65. After careful study of all types of plans it was concluded that this one was the most suitable for your company and was reasonable in cost. This is another forward step in making Kroger a better place to work. It will also assist in the more effective administration of our personnel policies. Full information is contained in Proxy Statement.

The closer cooperation throughout the organization has contributed much to the results obtained. To all of our employees we extend our thanks.

On behalf of the Directors,



Chairman of the Board



President

CONSOLIDATED BALANCE S

ASSETS

| | |
|--|---------------|
| Cash on hand and demand deposits..... | \$ 14,584,867 |
| Notes and accounts receivable, less allowance for possible losses..... | 2,801,709 |
| Inventories of merchandise, at lower of cost or market..... | 63,025,926 |
| Store and general supplies..... | 887,867 |
| Prepaid insurance, rent and taxes..... | 407,943 |

TOTAL CURRENT ASSETS

81,708,312

| | |
|--|-----------|
| Stocks and mortgage notes..... | 103,441 |
| Investment in subsidiary insurance company not consolidated, at cost (Note 1) | 1,518,137 |

FIXED ASSETS:

Land and buildings (Note 2):

| | |
|--|--------------|
| Land | \$ 1,155,244 |
| Buildings | \$ 9,653,444 |
| Machinery and equipment, at cost..... | 23,377,403 |
| Automotive equipment, etc., at cost..... | 5,135,518 |
| | 38,166,365 |

Less, allowance for depreciation and
obsolescence

24,120,883

14,045,482

15,200,726

Deferred charges to future operations.....

679,299

\$ 99,209,915

Note 1: The investment in Manufacturers and Merchants Indemnity Com was increased during the current year by the purchase of additional shares of that company other than the directors' qualifying shares. At December 31, 1946, the investment, as determined in accordance with the rules of the Commissioner of Insurance of the State of New York, so determined, amounted to \$2,580,004, consisting principally of cash and securities. Operations of the insurance company for the year 1946 resulted in a net gain of \$2,509,042.

Note 2: Land and buildings are stated at cost less \$1,968,602, the applicable depreciation.

LIABILITIES

| | | |
|--|--------------|--|
| Notes payable, banks | \$ 5,000,000 | |
| Accounts payable | 15,188,660 | |
| Accrued expenses | 4,966,459 | |
| Provision for Federal taxes, current and prior years | 10,198,071 | |
| Dividends payable | 8,115 | |

TOTAL CURRENT LIABILITIES

35,361,305

Reserves for:

| | | |
|--------------------------------------|--------------|-----------|
| Contingencies | \$ 2,000,000 | |
| Possible inventory losses | 1,500,000 | |
| Employee retirement benefits | 2,000,000 | |
| Risks not covered by insurance | 548,607 | 6,048,607 |

CAPITAL

Preferred capital stock:

| | | |
|--|-----------|--------|
| First preferred, 6% par \$100, authorized 507 shares, outstanding 493 shares | \$ 49,300 | |
| Second preferred, 7% par \$100, authorized 460 shares, outstanding 407 shares | 40,700 | 90,000 |

Common capital stock without par value:

| | | |
|----------------------------------|------------------|---------------|
| Authorized | 3,000,000 shares | |
| Issued and outstanding | 1,836,589 shares | 33,671,735 |
| Earned surplus, as annexed | | 24,038,268 |
| | | 57,800,003 |
| | | \$ 99,209,915 |

pany, an insurance company licensed under the laws of the State of Ohio, at a cost of \$522,637. This investment represents the entire capital stock of 1946, the company's equity in the net assets of the insurance company, de- the State of Ohio, amounted to \$1,585,749. Total assets of the insurance com- b, U. S. Government securities and other marketable securities aggregating in a profit of \$42,122. No dividends were declared or paid by the insurance

portion of a net appraisal write-down charged to surplus in 1932.

**CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS
FOR THE FISCAL YEAR (52 WEEKS) ENDED DECEMBER 28, 1946**

| | | |
|--|------------------|----------------------|
| Net sales | | <u>\$567,487,547</u> |
| Cost of sales, including warehousing and transportation expenses, excluding depreciation | | <u>477,297,493</u> |
| | | 90,190,054 |
| Operating, general and administrative expenses, excluding depreciation .. | | <u>66,953,869</u> |
| Profit from operations before depreciation, net income of subsidiary companies and provision for Federal income taxes | | 23,236,185 |
| Depreciation | | <u>2,405,942</u> |
| | | 20,830,243 |
| Net income of consolidated subsidiary companies after depreciation of \$32,243 and provision for Federal taxes on income of \$204,000 | | <u>317,968</u> |
| | | 21,148,211 |
| Non-operating loss, including interest paid, less interest and dividends received | | <u>214,931</u> |
| | | 20,933,280 |
| Income before provision for Federal income taxes | | |
| Provision for Federal taxes on income | | <u>8,067,500</u> |
| | | 12,865,780 |
| Provision for: | | |
| Employee retirement benefits | \$ 2,000,000 | |
| Possible inventory losses | <u>1,500,000</u> | <u>3,500,000</u> |
| NET INCOME TO EARNED SURPLUS | | <u>9,365,780</u> |
| Earned surplus, December 30, 1945 | | <u>19,269,787</u> |
| | | 28,635,567 |
| Cash dividends paid in the fiscal year ended December 28, 1946: | | |
| First preferred \$6.00 per share | 2,985 | |
| Second preferred \$7.00 per share | 2,842 | |
| Common \$2.50 per share | <u>4,591,472</u> | <u>4,597,299</u> |
| Earned surplus, December 28, 1946 | | <u>\$ 24,038,268</u> |

LYBRAND, ROSS BROS. & MONTGOMERY

CERTIFIED PUBLIC ACCOUNTANTS

CINCINNATI 2, OHIO

TO THE BOARD OF DIRECTORS,
THE KROGER CO.,
CINCINNATI, OHIO.

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as at December 28, 1946, and the consolidated statements of income and surplus for the fiscal year (fifty-two weeks) then ended, have reviewed the systems of internal control and the accounting procedures of the companies, and without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of income and surplus present fairly the consolidated position of The Kroger Co. and subsidiary companies at December 28, 1946, and the consolidated results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Cincinnati, Ohio
February 7, 1947.

LYBRAND, ROSS BROS. & MONTGOMERY
Certified Public Accountants

FINANCIAL AND OPERATING STATISTICS

| | 1946 | 1945 | 1944 | 1943 | 1942 | 1941 |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| SALES | | | | | | |
| Total Sales..... | 567,487,547 | 457,332,640 | 448,381,416 | 422,427,610 | 388,847,338 | 302,765,745 |
| Retail Sales Per Store Per Week | 4014 | 3003 | 2821 | 2566 | 2148 | 1594 |
| PROFIT AND DIVIDENDS | | | | | | |
| Net Profit..... | 9,365,780 | 5,643,418 | 5,144,399 | 5,009,228 | 4,649,484 | 4,970,102 |
| Per Share of Common Stock... | 5.10 | 3.07 | 2.80 | 2.72 | 2.53 | 2.71 |
| Cash Dividends Paid Per Share..... | 2.50 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| NUMBER OF STORES | 2611 | 2730 | 2896 | 2999 | 3174 | 3477 |
| NUMBER OF EMPLOYEES | 22,349 | 19,389 | 18,425 | 18,289 | 18,567 | 22,784 |
| NUMBER OF COMMON SHAREHOLDERS | 27,270 | 27,294 | 27,194 | 26,827 | 26,479 | 26,173 |
| BALANCE SHEET | | | | | | |
| Cash and Gov't Securities..... | 14,584,867 | 19,737,033 | 29,495,550 | 15,234,498 | 19,495,954 | 17,963,435 |
| Ratio to current liabilities.... | .41 | .72 | 1.18 | .78 | .92 | 1.37 |
| Inventories of Merchandise.... | 63,025,926 | 42,867,852 | 38,052,582 | 46,012,694 | 41,948,687 | 30,200,939 |
| Net Working Capital..... | 46,347,007 | 39,335,661 | 47,680,902 | 46,646,782 | 45,746,364 | 38,168,582 |
| Current Ratio..... | 2.31 | 2.43 | 2.91 | 3.38 | 3.17 | 3.92 |
| % of Fixed Assets to Total.... | 15 | 18 | 17 | 19 | 21 | 26 |
| Net Worth per Common Share | 31.42 | 28.83 | 27.76 | 26.95 | 26.23 | 25.71 |

